West Virginia Corporate Credit Union
Capitalize On Your Ownership

April 6, 2009

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

To: Members of the National Credit Union Administration Board,

Thank you for the opportunity to comment on the Advanced Notice of Proposed Rule Making published by the Board on January 28th, 2009. Our comments are from the perspective of 32 years of operating a state-chartered corporate credit union for the primary benefit of credit unions in West Virginia. We operate with a stable operating management group and board of directors that has many years of combined experience.

Our comments will be limited to a few of the areas where you seek comments. To provide context to the reader of this comment letter, we will provide some basic information about the credit union members of WV Corporate. We serve 112 credit unions that are mostly doing business in WV. The largest of our members is approximately $284 million in assets. The median asset size of the members is less than $8 million dollars.

Although the West Virginia Corporate Credit Union and the entire West Virginia market of credit unions is considered very small in comparison to many other areas and fields of membership, our member credit unions are mostly very serious about sound operation, regulatory compliance, and a broad range of member services. We believe, and they tell us that their success has been promoted through the services and nature of our operation.

<u>The Role of Corporates in the Credit Union System</u>

The text of the ANPR states that recent events have highlighted structural vulnerabilities in the corporate credit union system. It is hard to understand how structural differences would address the current vulnerabilities. Concentration of risk in large institutions with low capital levels doesn't seem to be any more prudent than the diversification of risk in smaller institutions with low capital levels.

The question of payment system isolation is difficult to envision in a way that can continue to bring cost effective payment services to credit unions of all sizes. Given prudent asset liability management techniques, either mandated by regulation, or undertaken as lessons have been learned, liquidity risks of the board's apparent concern can be mitigated.

We understand that other participants in the payments processes may have concerns relating to investment activities threatening the orderly flow of payments to all counterparties. However, we believe that this can be addressed without forcing the separation of the business functions in a way that might limit services to a broad cross-section of the credit union community.

We believe that providing liquidity to the credit union system should be a continued function of the corporate credit union system. Corporates being asked to provide liquidity that are closely aligned with their membership base can assess issues, consult with their members, and identify problems that may not be uncovered by other parties.

Offering payments services without also having the balance sheet size to provide liquidity when needed, may also be problematic.

The current regulation is quite specific in the liquidity management and planning area. We believe that the regulation may need some modification to satisfy other market participants, but a truly mandated diligent adherence to the current regulatory language may have identified issues earlier in the current distressed environment.

We believe that a change to the Field of Membership portions will be problematic in that there are currently still possibilities for corporate credit unions to have state charters and to be granted a field of membership from their State Supervisory Authorities. There seems to be a suggestion by many that an improved system would be one where there were only a few regional corporates that do not compete with one another. It is difficult to envision that model being very satisfying to credit unions in our free-market economy. We see credit unions that are not of a certain size being left out in this type of a system, as well.

Corporate Capital

It is very difficult to comment on the subject of capital in the current environment. The changing unaudited estimates of impairment, coupled with the uncertainty of a coming new regulation keep us off-balance and unsure of where we go from here. The Temporary Corporate Credit Union Share Guarantee Program also complicates how we view capital ratios in the near to intermediate term.

That being said, we think that corporates need more capital. Capital in the form of retained earnings is preferential to any other form of capital.

We believe that there is a place in a new regulation for member capital in the form of perpetual deposits, or even a modified requirement for Member Capital Shares as a Tier II instrument. However, the current events and environment will make this form of capital difficult to obtain.

Risk weighting assets for the calculation of a new required capital ratio will not be easy. Given the fact that most corporates have assets that are heavy on investments and light on loans and other assets, the risk weighted system would rely strongly upon the ratings of the Nationally Recognized Statistical Ratings Organizations. These organizations have reputations and methodologies that are under continuing fire.

Required contributed capital (tier I or otherwise) from every member seeking services looks good in hindsight, and may have limited some of the risk taking and leveraging contributing to the current issues. However, we believe such a requirement may limit legitimate business opportunities, with well managed risks. Such opportunities may be very important to corporates as they attempt to accumulate retained earnings into the future.

As it relates to Membership Capital Shares, we caution the Board from making changes to the required structure that may encourage credit unions to provide notice on their current accounts. This would most certainly provide increased stress to the corporates' capital ratios in the current environment. Although the Board may wish to modify or supplement the existing accounts, it will be difficult to convince credit unions to agree to new terms and conditions that would be more restrictive than current terms.

Although the ANPR didn't make direct mention of infused capital from some entity under the control of the NCUA Board, we believe that this will apparently be an important form of capital for corporate credit unions. As it relates to this issue, we encourage the Board to be transparent in their rationale for making any additional infusions on a case by case basis.

<u>Permissable Investments</u>

We do not believe that corporates should be limited to investing in only investments that would be permissable for natural person credit unions. In addition, the contemplated prohibitions from the ANPR would probably not be necessary due to expected prudent application of experience. However, there is a market expectation that the regulation be strengthened in this area and we concur.

<u>Credit Risk Management</u>

We are open to appropriate limits as to exposure by sector, type, etc. Again, we believe that experience has been an excellent teacher and prudent management will not be willing to take risks taken in the past. However, we are open to regulatory language to mandate the limiting of concentration risk.

We would like to point out that in the testing of credit spread widening, that corporates had been doing this type of analysis on their portfolios. In many cases the spread widening shocks applied were calculated to anticipate and project catastrophic scenarios from a historical basis. Unfortunately, history could not predict the unprecedented credit event that we are experiencing. We encourage you to mandate the testing in the regulation, but again, the current experience has already changed models and assumptions in this area in risk management systems.

Asset Liability Management

In the Board's consideration of re-instituting requirements for testing in this area, we encourage you to back-test certain corporate portfolios to see if the type of testing being contemplated would have uncovered or anticipated any risk areas. We speculate that the corporates with complex portfolios may have been performing various types of testing that was not predictive of the damage caused by the credit event we are experiencing. We believe that in normally functioning markets and interest rate environments, the Net Economic Value methodology prescribed in the current regulation is a much better indicator of risk that net interest income modeling.

Corporate Governance

We believe that a regulation that stipulates requirements for outside directors, term limits, and compensation for directors might be problematic if the intent is to maintain a cooperatively owned and operated system. Governance by members and their representatives might present conflicts on a regular basis, but we believe that the governance form is sound and has importance in the credit union system.

In closing, we would again like to thank the Board for accepting our comments. We encourage the Board to use prudence in re-writing the regulation. It is obviously a time of extreme challenges to corporate credit unions and natural person credit unions. We understand there are pressures to act strongly and decisively. We hope that you can add thoughtfully to that list of how you will proceed.

On behalf of the Board of Directors,

Charles E. Thomas, President / CEO
WV Corporate Credit Union